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## **\$400 Billion Price Tag!**

# **Gore-Mongering Social Security**

Never accuse Al Gore of running with the herd. When everybody headed to their local Ford dealership to purchase the new Explorer, then-Senator Gore argued we should abolish the internal combustion engine. Today while everybody else works to preserve Social Security for future generations by extending its solvency, the Vice President suggests a pair of proposals to make it go broke faster.

Last month, Vice President Gore announced two new changes to Social Security. The first would address what he labels the “motherhood penalty” faced by stay-at-home parents. It would, for the purpose of calculating retirement benefits, count up to five years spent at home parenting as years working — at a salary equal to half the average national wage. The second proposal would increase benefits paid to spouses when their partner dies. Right now, the surviving spouse’s benefits are reduced by one-third to one-half. The Vice President proposes minimizing this reduction to one-fourth.

Everyone wants to help moms and widows — especially during election years — but Social Security is exactly the wrong tool for the job. Gore’s proposals would fail to provide meaningful assistance to the people they are targeted to aid. Worse, they would increase Social Security’s unfunded liabilities by almost a third, reduce Social Security’s trust fund balances by \$400 billion over the next 10 years, and accelerate the system’s cash-flow crisis by two years, from 2015 to 2013 [see page 3 for details].

## **Motherhood Penalty?—**

### **Social Security Doesn’t Penalize Stay-at-Home Parents**

Al Gore claims his first proposal will help moms who stay home to raise the kids. Nothing wrong with that concept. In fact, the Senate’s Republican Marriage Tax Relief Act will enable more parents to stay home with their young children because the family will pay fewer income taxes due to raised rate thresholds and standard deductions. Republicans would welcome the Vice President’s endorsement of this bill.

Social Security, however, is one of the few federal programs that already takes stay-at-home parents into account. Under the current system, married spouses who have lower lifetime earnings than their partners generally receive about the same Social Security benefit regardless of whether they worked full-time, part-time, took a break for child-rearing, or did not work at all.

For example, in 1996 women who receive Social Security benefits based upon their own work record received an average benefit of \$657, while women whose benefits are based upon their husband's work record received \$596, just a 10-percent difference [Social Security Administration].

In other words, there is no motherhood penalty in Social Security. If Al Gore wants to help mothers, why doesn't he embrace tax relief like the Senate Marriage Tax Relief Act, which would allow parents to keep more of their income before it gets sent to Washington? That proposal also would give parents the benefit now, while they are raising their children. He should also support the Senate Republicans' Family Friendly Workplace Act that would make it easier for parents who cannot or choose not to leave the workforce still to meet their family obligations. These are the straight-forward ways to help parents.

Instead, his proposal would take a program already under financial distress and make it go broke faster. Under Gore's proposal, years after you've incurred the expense and raised your children, you get a few more benefits from the federal government. Who pays for those benefits? You guessed it, your children. Not much of a deal.

Moreover, setting a wage value for stay-at-home parents sets an absurd, and dangerous, precedent for the federal government. Why is parenting only worth half the national average wage? Why not more? What about low-income mothers who earn less than half the national wage? They can't afford to stop working or just work part-time, but their real earnings and real payments into Social Security count less than Al Gore's phony-earnings-and-phony-payments proposal. How is that fair?

## **Increasing Widow's Benefits: Not a New Idea**

The Vice President's second proposal is half of something that has been discussed for years. Some observers believe that Social Security widow's benefits are too low compared to the benefits those women received when their husbands were still alive. For example, a typical retired couple might receive \$1,500 a month from Social Security — \$1,000 for the husband's work record and \$500 for the spouse's benefits. When the husband dies, the widow will receive \$1,000 a month, one-third less. For a widow with benefits based on her own earnings, the reduction might be as much as one-half.

Some groups, including members of the Advisory Council on Social Security, have suggested mitigating this sharp income decline by reducing benefits offered to spouses while their partners are alive and adopting a corresponding benefit increase when they become widowed. A typical proposal would be to reduce spouse's benefits to one-third the husband's benefit (rather than one-half), while increasing the surviving spouse's benefits to no less than three-fourths of the couple's benefit.

Whether one endorses or rejects the proposal outlined above, it's clear that Al Gore is proposing the benefit increase while neglecting the benefit cut. It's the doughnut without the

diet. If increasing Social Security benefits without proposing offsetting savings weren't so expensive and irresponsible, every politician would advocate it.

## **Pandering Has its Price**

The Vice President estimates his Social Security proposals would cost about \$100 billion over the next 10 years. That is a gross underestimate.

According to the Social Security Administration, increasing widow benefits alone by the amount Gore proposes would cost about .32 percent of taxable wages [Report of the 1994-1996 Advisory Council on Social Security, Volume I: Findings and Recommendations, January 1997]. That translates into \$166 billion over the next 10 years. While the Social Security Administration has not estimated the cost of Gore's "motherhood" proposal, economist Henry Aaron offered a "seat-of-the-pants" estimate in *Slate Magazine* [4/5/00] of .25 percent of taxable wages. Combined with the widow's benefit, that's almost \$300 billion in new costs to Social Security over the next 10 years. Add in lost interest to the Social Security trust fund, and the total cost to the system is almost \$400 billion.

Social Security is already badly underfunded over the next 75 years. The benefits promised to seniors exceed the expected revenues by several trillion dollars. The Social Security Administration estimates this unfunded liability is equal to 1.89 percent of taxable payroll over that time. The initial estimates above suggest Gore's proposal would increase Social Security's long-term unfunded balance by almost a third — .57 percent of taxable payroll! Even if Al Gore amends his proposal to phase-in the costs, the long-term effects on Social Security's financial health would be devastating.

In the short term, the Gore proposal would accelerate the coming of Social Security's cash flow deficit — the point at which Social Security's costs exceed the payroll tax revenues collected. According to the Social Security Trustees' annual report, Social Security will begin operating a cash-flow deficit in 2015. In that year, taxpayers will be called on to pay federal taxes in addition to payroll taxes to redeem bonds to pay for Social Security benefits. Under the Gore proposal, that day of reckoning will come two years earlier, in 2013. So much for protecting Social Security.

The Vice President has offered up to pay for Social Security's existing short-falls by shifting income tax revenues into the trust fund to cover payments for existing benefits. The above proposals would require that even more non-payroll taxes — \$51 billion in 2017 alone — be diverted into the Social Security system to cover the costs. The taxpayers in 2017 who have to pay for these new benefits will not thank their sponsor.

## **Maybe He Should Stick With Banning Internal Combustion Engines**

When it comes to pandering, Vice President Al Gore doesn't run with the herd — he's way out in front of it. Expanding Social Security benefits when the program is already going broke is wholly irresponsible. Everyone associated with real Social Security reform efforts should be up in arms. As Robert Reischauer, former Congressional Budget Office Director, observed about the Gore proposals, "We still have a program that is going to face difficulties. Compounding those difficulties is not responsible policy." [*Slate Magazine*, 4/5/00].

These proposals are especially disturbing given the Vice President's recent misstatements regarding the Administration's plan to have the federal government invest Social Security funds directly in private industries. Gore claims the Administration never proposed such a thing. They did — on the record and repeatedly. [For details, see RPC's "Gore Rewrites History on Social Security Proposal," 5/2/00]. Social Security benefits represent the bulk of most senior citizens' retirement income. As such, the program is much too important to be used for brazen political posturing. The Vice President is in denial about poorly conceived Social Security reforms proposed just last year. One wonders how long he'll stick by these new ones.

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